# Facts on the Doha Round

**Office of the United States Trade Representative** **www.ustr.gov**
**Doha Development Agenda Policy Brief – October 2005**

## *Implications of U.S. WTO Agriculture Proposal on Trade-Distorting Domestic Support*

**Background.** The World Trade Organization (WTO) distinguishes between (1) farm programs that have minimal or no distorting effects on production and trade, and (2) farm programs that provide an incentive to produce one product instead of another, or reward farmers for producing additional quantities.

Non-distorting policies, referred to as green box programs, are allowed without any quantitative limit, as long as the policies conform with WTO established criteria. Production, and therefore trade-distorting, policies are subject to constraints under WTO rules, with support limits established under several criteria. Trade-distorting policies, referred to as amber box programs, are measured using a WTO calculation called the "aggregate measurement of support" (AMS). The AMS calculates support to producers through direct payments, price support and other advantages linked to prices or production.

Under current WTO rules, for any particular year, countries are obliged to maintain support across all agricultural commodities below a set level. The U.S. ceiling for amber box support is $19.1 billion. In addition to green box programs, trade-distorting support that is below a *de minimis* level (5 percent of the value of production for any particular product, or 5 percent of the value of total agricultural production for non-product specific programs) is not counted towards the annual ceiling. However, once support exceeds the 5 percent level, it all counts toward the amber box ceiling – in effect, countries can have a product-specific *de minimis* program or an amber box program, but not both. Additionally, support under programs that meet criteria for production-limiting programs, so called blue box programs, is also excluded from the annual calculation against the amber box ceiling.

**DDA Framework.** In July 2004, WTO members agreed to a framework for the Doha Development Agenda (DDA) negotiations for substantially reducing trade-distorting domestic support. As with tariffs, all cuts are to be from WTO allowed levels, agreed and bound under the last multilateral trade negotiation in 1994. The 2004 framework calls for greater harmonization in the allowed level of trade-distorting domestic support by cutting amber box and total trade-distorting domestic support using a tiered formula: the higher a WTO member's allowed level of support, the greater the cut it must undertake. Caps will be established on amber box support on a product-specific basis. The framework also calls for reductions in the *de minimis* levels for product and non-product specific support. In addition, the framework establishes a cap on the blue box at 5 percent of the value of agricultural production and expands the definition to include payments that do not require production, with agreement to continue negotiations on the definition. The green box criteria will be reviewed to ensure programs are minimally or non-trade distorting.

**U.S. Proposal.** The United States proposed on October, 10, 2005, as part of a comprehensive proposal involving all areas under negotiation, specific elements for domestic support reform in developed countries. Key components include:

- **Amber box**: 60 percent cut for the United States, with an 83 percent cut for the European Union
- **Blue box**: further reduction of the 5 percent cap to 2.5 percent
- ***De minimis***: a 50 percent reduction in the current allowance (from 5 percent to 2.5 percent)
- **Overall trade-distorting support**: 53 percent cut for the United States, 75 percent for the European Union
- **Green box**: no material changes in the criteria, and no cap on expenditures
- **Litigation protection**: protection against WTO challenges if a member controls support below new, lower, allowed levels.

Specifically, the U.S. proposal would have the following effect on allowed U.S. support for trade-distorting programs. Non-trade distorting programs, such as conservation, environment, infrastructure, research, pest and disease control, food stamps, etc. would not be limited.

| | Current Allowed | Applied (2005, estimate) | October Proposal | Type of Program Eligible |
|---|---|---|---|---|
| Amber<br>*Most Trade Distorting* | 19 | 14 | 7.6 | Marketing Loan Program,<br>Dairy Price Support,<br>Sugar Price Support |
| Blue<br>*Less Trade Distorting* | unlimited | 6 | 5 | Counter-cyclical Payments |

*U.S. support, Billion U.S. Dollars, data rounded*

For the European Union, the proposal would have the following effect:

| | Current Allowed | Applied (2005, estimate) | October Proposal | Type of Program Eligible |
|---|---|---|---|---|
| Amber<br>*Most Trade Distorting* | 88 | 36 | 15 | Price support<br>Intervention |
| Blue<br>*Less Trade Distorting* | unlimited | 20 | 8 | Compensatory Payments |

*EU support, Billion U.S. Dollars in current exchange rates, data rounded*

**Conclusion:** The proposal addresses the primary concerns of our trading partners, the amber and blue boxes, and establishes real constraints on the size of programs we could operate. In fact, the U.S. amber box would face a cut of 46 percent in the estimated applied rate for 2005 and the combined amber and blue would fall from approximately $20 billion in 2005 to a maximum of $12.6 billion. Congress would have the discretion to design specific programs, but would be subject to these specific limits. The proposal would also allow Congress to maintain green box programs, as well as continue a counter-cyclical type program in the future, although the latter is subject to a support limit.